

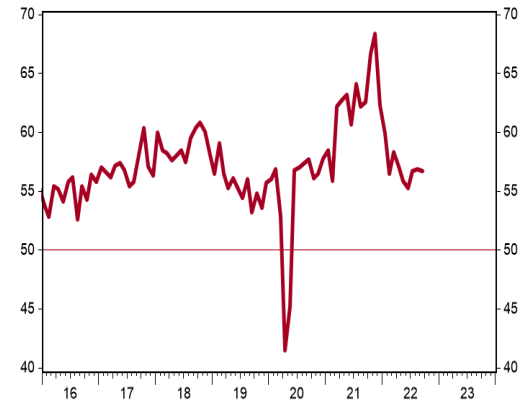
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Bryce Gill – Economist

September ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index declined to 56.7 in September, beating the consensus expected 56.0. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity moved mostly lower in September, but all stand above 50, signaling growth. The business activity index declined to 59.1 from 60.9, while the new orders index dropped to 60.6 from 61.8. The supplier deliveries index declined to 53.9 from 54.5, while the employment index rose to 53.0 from 50.2.
- The prices paid index declined to 68.7 in September from 71.5 in August.

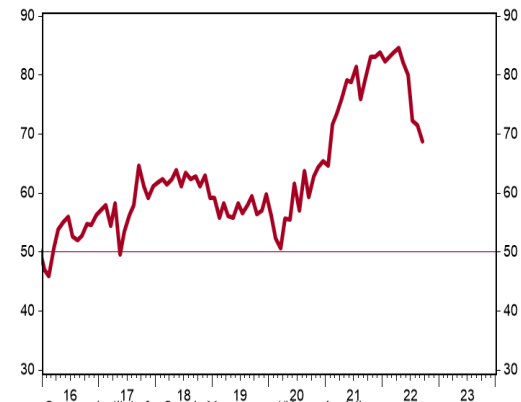
Implications: The two big ISM reports this week were a great display of the divergence in the US economy between the goods sector and service sector. The ISM Manufacturing index fell in September to the lowest level since the early days of the recovery from the COVID shutdown. Meanwhile, although it declined slightly for the month, the ISM Services index beat expectations, coming in at a hearty 56.7, with fifteen of eighteen service industries reporting growth. The service sector does have some blemishes. Survey comments have begun to cite a general slowdown in sales, blaming inflationary concerns, consumer uncertainty, and hiring challenges for holding activity back. These effects can be seen in the indexes for business activity and new orders – the two most forward-looking pieces of the report – which both declined in September. Despite this, both indexes still sit comfortably in expansion territory, and only slightly off their highest levels of 2022. Future activity in the service sector will be a battle between rising demand as consumers shift their spending preferences away from goods toward the still-reopening services side, and the inflation, supply chain disruptions, and labor shortages that have plagued companies since the pandemic began. Evidence of that transition can also be seen in the most recent [report](#) on personal income and spending; spending on goods fell 0.5% in August, while spending on services rose 0.8%. We believe the service sector will lead the US economy higher in 2022, but it's clear that were it not for the issues still lingering in the wake of poor pandemic-related policy decisions, the service sector would be doing even better. A deeper dive into the details of the report offers positive news that some of these issues might be abating. The supplier deliveries index, a measurement of lead-times for businesses, fell for the third consecutive month and sits at the lowest level since the recovery from the pandemic began. Meanwhile on the inflation front, the index for prices paid declined for the fifth consecutive month to 68.7 and sits at the lowest level since late 2020. Although that is far off from the 84.6 peak in April – make no mistake – inflation is still a major problem for companies, as all eighteen industries reported paying higher prices in September. Finally, the best news in today's report comes from the labor front, as the employment index increased further into expansion territory and now sits at a six-month high. Despite large rate hikes, demand for labor in the service sector remains strong. We are forecasting that nonfarm payrolls rose 285,000 in September, which should give the Fed reason to maintain an aggressive path of rate hikes.

ISM Services: Services PMI Composite Index
 SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

ISM Services: Prices Index
 SA, 50+ = Economy Expanding



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-22	Aug-22	Jul-22	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	56.7	56.9	56.7	56.8	56.4	62.6
Business Activity	59.1	60.9	59.9	60.0	58.3	63.4
New Orders	60.6	61.8	59.9	60.8	58.4	64.2
Employment	53.0	50.2	49.1	50.8	49.9	54.1
Supplier Deliveries (NSA)	53.9	54.5	57.8	55.4	59.1	68.8
Prices	68.7	71.5	72.3	70.8	76.6	79.5

Source: Institute for Supply Management